

IBM Global Technology Services

Summary of the major financial impacts to the WellPoint Contract (In \$millions)

Financials						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
Middleware Support (30 FTE)	\$4.9M	\$4.6M	\$4.4M	\$4.2M	\$4.0M	\$3.8M

Financials						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
DBA Support (24 FTE)	\$3.9M	\$3.7M	\$3.5M	\$3.3M	\$3.2M	\$3.0M

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Summary of the major financial impacts to the WellPoint Contract year to year (In \$millions)

Resolution

<u>Financials</u>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
\$4.7M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$4.7M

Blended
Storage vs
Tiered

<u>Financials</u>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
\$9.0M	\$10.2M	\$10.0M	\$10.0M	\$8.8M	\$7.1M	\$3.4M

Totals

	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$44.5M	\$34.4M	\$30.8M	\$30.1M	\$28.3M	\$26.0M	\$16.1M	\$210.2	



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Major volume related issues and information gaps upon contract inception

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Major volume related issues: Middleware support

Issues

- Volume gap in original assumptions in terms of labor to support middleware applications.
- The team spends substantial time investigating countless web enabled application failures to "prove" the issue is not infrastructure related.
- In addition, we assist the application team with defect resolution, problem determination, debug support and process support.

Volume Gap

- 30 FTPs more than planned for and assumed
 - \$4.9 million 2006; \$27.7 for total contract

Major volume related Issues: DBA Support

□ Scope

- Oracle 509 Instances/Server/Subsystem and 512 Databases
- Sybase 124 Instances/Server/Subsystem and 1,115 Databases

- UDB 102 Instances/Server/Subsystem and 376 Databases
- MS SQL 229 Instances/Server/Subsystem and 2,916 Databases
- IMS & DB2 59 Instances/Server/Subsystem and 22,124 Databases
- M204 5 Instances/Server/Subsystem and 927 Databases

□ Issues

- Volume gap in cost case assumptions
- Engagement team only received Wellpoint Numbers after signing and did not receive Anthem numbers and volumes
- Additional impact analysis found that our support ratios are benchmarked in line with competency numbers

□ Volume Gap

- 24 FTPs more than planned for and assumed
 - \$3.9 million 2006; \$22.1 million for total contract



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Major volume related Issues: User ID Administration

■ Scope

- The team provides support for the management and administration of ids for access to the Supplier-operated Systems, networks, Software, and with respect to WellPoint Data, administering access per WellPoint's instructions.

■ Issues

- Volume gap against original model assumptions.
 - It was estimated during the engagement that the end user population was 20,000 and there would be on average 3 requests per person per year, for a total of 60,000 IDs to manage per year.
- Currently we are experiencing 39,000 users and 156,000 IDs (4 per person per year).
- Between 1/1/2006 and 3/15/2006, 25,569 requests have been completed, for a yearly estimate of approximately 125k.
- Need to establish a charging mechanism to accommodate unplanned growth

■ Volume Gap

- 41 FTPs more than planed for and assumed
 - \$6.7 million 2006; \$46.9 million for total contract

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Major volume related Issues: Change Management

■ Scope

- The team provides support for moving all programs from the application development and test environments to production environments. The team also supports and integrates all production control and scheduling functions. (all within contract scope)

■ Issues:

- SLA: Max. Percent of Failed Changes 1.00%
- SLA: Max. Percent of Emergency Changes 15.00%

■ Volume Gap:

- 26 FTPs more than planned for and assumed
 - \$4.2 million 2006; \$23.9 for total contract

Major volume related issues: Lotus Notes and Exchange

■ Scope

- The team provides support for e-mail and collaborative applications.
- The team supports 18 mail servers, 31 infrastructure servers, 45k mailboxes and Domino app support for 14 servers, 3000 apps

■ Issues

- WLP migrated off of Lotus Notes for Mail but not databases (Domino application DBs), therefore IBM continues to support multiple collaborative applications (Three FTEs). Solution assumed moving totally to an Exchange environment.
- WellChoice minimally increased costs to support the Notes connector. We are preparing a SOW to add Notes connector support to prevent further scope creep.

■ Volume Gap

- 6 FTEs more than planned for and assumed
 - \$1 million 2006; \$5.6 million for total contract



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WellPoint Scope that IBM is doing

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» Functional areas

- **Filenet**
 - : No contract scope reference
 - : WLP has other Filenet scope in house
 - : Sized at about 10 FTEs

- **UID Admin Level 1 Helpdesk support**
 - : No contract scope in Helpdesk
 - : Sized at about 1 FTE
- **Wisconsin LAN/WAN support**
 - : Sized at .25 FTE

*Financials Filenet

*Financials Filenet			
2006 Impact	2007 Impact	2008-12 Impact	Total Impact
\$1.6M	\$1.5M	\$5.9	\$9.0M

» Negotiation Strategy

- Move the work back to WellPoint
- Price the work and WellPoint pays

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IBM scope that WellPoint is doing

- **Functional areas**

- Anti-Virus Patching
- Richmond NOC monitoring Anthem heritage servers

- **Negotiation Strategy**

- Finalize plans already in progress to move work to IBM

Blended vs. Tiered Storage Rates

- » **Scope**
 - IBM currently provides a blended rate of \$0.78/gig for midrange storage.
- » **Issues & History**
 - Post signing discovered a sizeable industry gap in our original solution pricing when working through the process.
 - Baseline early input from WLP was 563 TB, later input which became the contract baseline was 809 TB, but cost case and pricing was built on 563 TB
 - Actuals around 700 TBs so we are undercharging them, and paying RRCs monthly

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Blended vs. Tiered Storage Rates

- Tiered solution rates would be \$2.02 - \$2.40 -
\$2.45/gig vs.. \$0.78/gig current blended rate.

Financials

2006 Impact	2007 Impact	2008-12 Impact	Total Impact
\$9.0M	\$10.2M	\$39.2	\$58.4M

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WellPoint Original Key Transition Milestones

■ **Transition: year 1 (7/1/2005 through 6/30/2006)**

- ~380 employees to IBM
- Mainframes moved into Southbury (California, Georgia, and then Missouri)
- Open Systems moved into Southbury / Lexington (3,000 server nodes)
- Distribution of DR between Lexington and Southbury (Richmond)

■ **Transformation: Years 2-3 (7/1/2006 through 6/30/2008)**

- Year 2: Consolidate Open Systems by 50% of original images
- Year 2-3 Automate and integrate the infrastructure environment end-to-end through standardization managed by the UMI

■ **Continuous Optimization: Years 3-7 (7/1/2008 through 6/30/2012)**

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Transitions History

- **May 2005 WellPoint takes IBM Strategic Outsourcing to their Board for approval**
 - Transition CA, GA, MO and WI datacenters to IBM sites (Lexington primary, Southbury backup) in that sequence between February 2, 2006 for CA and all moves complete by June 30, 2006.
 - Specific constraints included that CA must be first and early. No quiet period required by WLP which IBM reconfirmed multiple times throughout the engagement.
- **June 28, 2005 WellPoint and IBM sign SO deal with aforementioned solution**
 - July 2005 WellPoint requests IBM to analyze the potential to use the WellPoint Richmond datacenter as the prime site, with the IBM Lexington site as backup.
 - August 1, 2005 WellPoint determines that they would like the Richmond datacenter as the primary location with the IBM price change of \$9.3M over the life of the contract.
 - LOA in place to cover specific early Network devices required of IBM



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Transitions History

- **Early December 2005 WLP holds meeting in NYC with IBM to discuss 2006 costs that will hit WLP budget prior to budget closure for 2006**

- WLP objective was to make adjustments to the plan that would help them mitigate incremental costs and get back to original plan numbers as presented to their Board. Two alternatives were discussed in detail
 - Delay original solution by one more month. What would that cost of delay be and what would be the month to month costs for additional delays.
 - IBM provided a new indicative pricing by mid December of \$4.9M with an estimated \$830K for every incremental month delayed.
 - Develop a re-solution that takes the constraints away from the plan. i.e. CA does not need to move first in an attempt to find a more cost effective approach and earlier return for WLP in terms of reduced server charges (via consolidation).
 - Engagement team was assigned to work through proposal development

- **Mid December 2005 WLP requested detail discussion on the Richmond decision as well as the Richmond LAN and Power issues**

- WLP concern was over the \$5M+ it would cost them to fit up Richmond LAN
- Power estimates may not cover the required Power to move datacenters into Richmond
- WellPoint wanted IBM to pay for incremental Power requirements
- IBM continues to contend that Power is the responsibility of the datacenter owner, in this case, WellPoint.
- IBM and WLP concluded this discussion as closed – both on Power and LAN requirements.



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Transitions History

- **January 2006**
 - WLP reaffirmed via email on January 27, 2006 that they would use the Richmond data center as the primary facility for the IBM SO scope of service, and that the new CA move date was 6/15/06
- **February 7, 2006 IBM provided a Re-Solution proposal to WLP**
 - Re-Solution included Richmond datacenter pricing
 - It did not include the Cost of Transition Delay, and was stated as such in the proposal itself
 - Re-Solution also includes an incremental \$4.683M of OTC for reconfiguring mainframes to receive GA and MO first
- **March 21, 2006 WLP officially accepted the Re-Solution proposal.**
- **April 2006**
 - The plan was recast to represent a 4/1/06 start date
 - New Plan was reviewed with Darren Smith and Jim Forrest and approved on 4/24/06.
 - Amendment is drafted.
- **May 2006**
 - LOA presented to Dave McDonald on May 8th to cover 2Q06 Re-solution costs
 - LOA was rejected and WellPoint requested a more formal contract change
 - A contract change is being developed with updated pricing and new pricing exhibits for presentation to WLP

Datacenter move, location, consolidations and sequencing

- **Richmond Data Center Decision: July – August 2005**
 - Reduction in services and a reduction in price
 - LOA to support the Richmond decision in August 2005
 - November, 2005 leadership changes in WellPoint required review of decisions regarding Richmond Data Center.
 - Transition delay requested by WellPoint in Early November 2005
 - Sequencing of data center consolidation was to be the same
- **Change in sequencing of data center move: December, 2005**
 - Customer requested in order to meet the needs of their business
 - Customer decided the re-solution on March 21, 2006
 - Re-sequencing datacenter moves requires configuration rework and throwaway work
 - Delayed overall transition
 - Re planned overall transition strategy and data center move
- **Financial Impact**
 - \$11.0 million for delay in transition and 4.7 million for re-sequencing – total \$15.7 million.
One important component that drove the delay was the lack of network infrastructure to support the moves as originally planned.
 - WellPoint's decision to modify/delay SCON, sequencing, the data center solution etc. has had a material, adverse impact on IBM's assumed cost model and on IBM's ability to deliver standardization and stability to the environment

Transition Events

1st Delay Events

Richmond LAN build out
delay notification 11/05
Indy Mtg. 11/05 for 5/15 CA
date

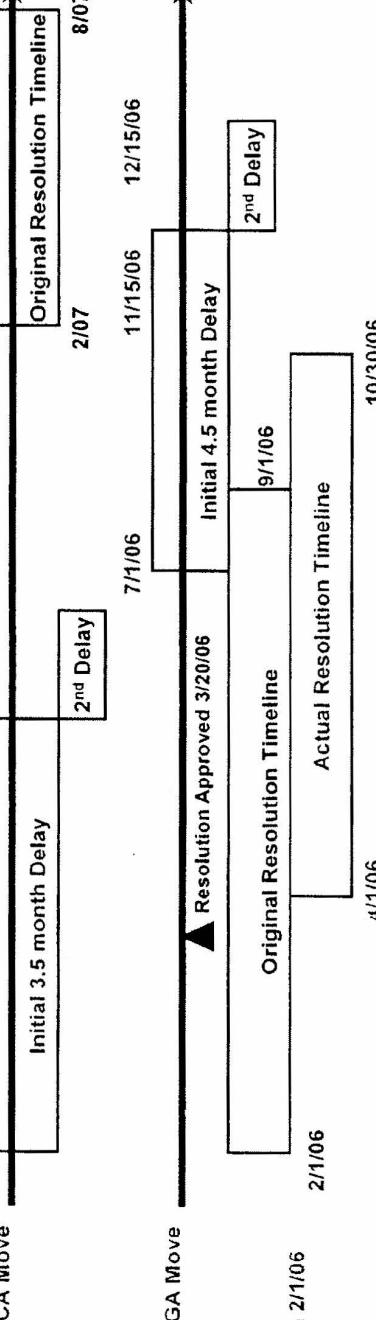
2nd Delay Event
Alternate Solution
Investigation, NY
meeting 12/2005

2/1/06 CA Move

5/15/06

6/15/06

8/07



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"Other" Contract Issues

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Other WellPoint Contract Items: Server Lease Termination

- **Gap between assumed server lease termination and refresh point**
 - Cost case assumed refresh at termination of assumed lease (36 months in most cases)
 - Contract stipulates server refresh at 48 months
 - Refresh cost is recovered via HSC revenue for the first \$14.6M in refresh
 - 2005 – 2008 cost to bridge assumed leases to refresh point is \$5.3M

Other WellPoint Contract Items: Audits

▪ Issues & History

- Volume gap against original assumption.
- We priced based on two audits per year. WellPoint has over 50 audits planned for 2006 (approximately 20,000 hours).
- There is no SLA, but contract obligates us to complete audits in three business days. The customer wants us to complete this in two days and generally we have met that request.

Financials

<u>Cost Case</u>	<u>FTPs as of 7/1/05</u>	<u>FTPs as of 3/15/06</u>	<u>Cost Difference Since Inception</u>	<u>Cost Difference Remaining Contract</u>
2 FTPs (QA Mgr)	.25 FTPs	2.75 FTPs	\$0k	\$555k
0 FTPs	7 FTPs	11 FTPs	\$700k	\$8,140k

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Computer Associates and BMC License agreements

- **Scope**
 - CA/BMC License Agreements assumed in Empire's cost case
- **Issues & History**
 - IBM assumed financial responsibility for Empire's existing Mainframe/Midrange Term license agreements
 - IBM paid \$4.6M in 2005 for BMC licenses versus \$1.9M assumed in cost case
 - 2006 assumed BMC replaced, YTD'06 \$1.1M paid versus FY'06 \$0.5M assumed in cost case
 - IBM paid \$6.7M in 2005 for CA licenses versus \$3.1M assumed in cost case
 - At end of 2005, IBM entered into long-term SW license agreement with CA for remaining life of contracts. Empire cost reduction of \$1.5M from 2005-06. Exposure remains due to original costing.

<u>Financials</u>				
2005 Impact	2006 Impact	2007 Impact	2008 Impact	Total Impact
6.4M	3.5M	2.4M	2.7M	\$30M+